

MR. WILHELM: Thank you, Commissioner Becker. I appreciate the opportunity to appear at this hearing. It deals with one of the most critical areas of public policy facing U.S. Steel and the American steel industry in general. That's trade and the trade deficit.

The trade deficit affects both American steel workers and American steel companies. Over the years, we have been hit with a dual deficit in both steel and steel-containing products. The steel industry is characterized by high, very high fixed costs of production. As a result, during the times of economic difficulty abroad, foreign steel companies dump their excess production here in the United States, which is the world's most open market.

Last year, finished steel imports increased by over 40 percent from 1997 levels, and as you know, 1997 was a record year for us in terms of imports since we started keeping records in World War II.

Of the 10 million ton increase that we saw, over 61 percent came from Japan and Russia. The surge of steel imports was driven by the collapse in demand in Asia and the continued economic collapse and the problems in Russia. Rather than cut back on production, they dumped their excess in the foreign markets. That market was the United States.

Japanese exports to the United States increased by 164 percent. Russian exports increased by 68 percent. Together, Japan and Russia account for almost 60 percent of the world's excess steel capacity.

The question you have to ask is why is the U.S. market the largest place for dumping. At first it's because the world steel industry has an extraordinary huge excess capacity of approximately 250 million tons, which is largely the result of foreign government policies in subsidies.

Secondly, because most of the world's steel is subject to private and public restraints on trade. Those are restraints in which our industry here in the United States does not participate.

Domestic cartels in major steel markets like Japan, foster dumping. Cartel arrangements between mills in different countries restrict trade flows between national markets and world regions. These arrangements have the effect of channeling dumped steel production into the United States market. Government restrictions on imports also limit international steel trade flows and access to some of the world's largest steel markets, including the European Union, China, Japan, and Brazil.

Because of these factors affecting world steel trade, the U.S. market has been subjected to

sustained surges of steel imports, especially during times of depressed market conditions overseas. As you well know, Chairman Becker, the U.S. steel industry went through a very painful restructuring in the 1980s.

That was a time when the dollar was considered overvalued, even by our economists. As a result, the U.S. trade deficit increased enormously, and U.S. manufacturing bore the brunt of the adjustment costs associated with the effects of the over-valued dollar.

The U.S. trade deficit increased from \$25 billion in 1980 to \$160 billion in 1987. The steel industry was absolutely hammered as these imports surged. Unfair trade cases and import relief actions were initiated to stem the surge, but we had to make some extremely tough decisions. Mills were shut down. Thousands of American steel workers lost their jobs. Industry production capacity declined by over 20 percent.

Through hard work and the joint efforts of management and labor, the steel industry, the domestic steel industry transformed itself into a world-class competitor. Labor productivity more than doubled. Quality improved, and new products were introduced. The industry succeeded because it invested in itself \$50 billion in the 1980s, and billions more every year since then.

Now, the United States is enduring another sustained period of sharply increasing trade deficits. The deficit rose from \$74 billion in 1991 to \$247 billion last year, and likely will exceed \$300 billion this year.

The Asian economic crisis has been a significant factor in the sharp rise in the U.S. trade deficit in 1998 and 1999. The trade deficit has soared, not only because imports have continued to increase, but also because exports have stagnated. Total U.S. imports expanded in 1998 by 4.7 percent, while exports fell by 1.4 percent.

The deterioration in the steel trade, however, has been much worse than the picture I just painted. In 1998, imports of finished steel products increased 40.1 percent, while exports declined 8.5 percent. To put this in perspective, if total U.S. imports and exports had changed by the same amount as steel imports, the overall U.S. trade deficit in 1998 would have ballooned to well over \$600 billion.

The increase in import volume was accompanied by a sharp fall in import prices that diverted sales away from U.S. producers, sharply expanded inventories in the United States and drove down domestic prices. Finished steel import prices declined by over \$120 a ton from the fourth quarter of

1997 to the fourth quarter of 1998, which was an unprecedented fall of 22 percent in one year, and something I have never seen in my 35 years with this company. Our import volume grew by over 60 percent.

At U.S. Steel, the effects of these imports have hit us extremely hard. In our most recent quarter, income from operations was a loss of \$44 million, or \$16 a ton. Our average price realization per ton was \$405, down \$61 from the same quarter last year. In a company like ours that ships 11 million tons a year, that's well over \$600 million in revenue.

Still, U.S. Steel is better off than some other companies. Five of our American sister steel companies have filed for Chapter 11 bankruptcy protection. The effects of this import crisis still continue.

The record import volumes of 1998 have declined, but domestic prices have barely begun to recover because the large import inventory overhang persisted through the first three quarters of 1999. As a result, profits remain severely depressed, and domestic shipments have not fully recovered.

Some laid off workers are finally being recalled to their jobs, but industry employment is still down almost 9,000 people compared to the beginning of 1998. Most troubling of all, import

prices still remain \$100 a ton below the pre-crisis levels. Import volumes are now beginning to increase again.

Crisis conditions in the world steel industry still exist. There has been some recovery in demand in Asia, but Russia is still mired in recession and growth in Latin America is now beginning to slow significantly. The pressure is still there to dump excess steel in whatever open markets can be found.

The steel industry's experience with the import crisis of the mid-1980s and the current steel import crisis have confirmed the importance of strong and vigorously enforced trade remedies. President Clinton in his August Steel Action Program committed to zero tolerance of unfair trade, and he insisted that his Administration will continue to vigorously enforce our trade laws to ensure that our trading partners play by the rules. The Administration must follow through on this promise.

At the same time, we must make improvements in our laws. The current trade laws are poorly designed to respond to the kinds of sudden and dramatic import surges that now seem to be part of our international economic scene. The steel industry strongly supports House bill 1505 and the Senate bill

1741, which seek to put meaningful reforms in place so nothing like this current crisis can happen again.

The Administration also must assure that there is no weakening of our U.S. trade rules in any new multilateral negotiations. The United States should refuse to participate in any international negotiations in which anti-dumping and anti-subsidy rules are part of the negotiating agenda, and Congress should continue to communicate a clear message that it will not accept weakening changes to the anti-dumping and the anti-subsidy rules.

COMMISSIONER BECKER: You are running over, as you well know.

MR. WILHELM: I was just going to conclude. I am going to conclude right now.

The steel crisis has been and it continues to be an extraordinary burden on American steel companies and American steel workers. But I am hopeful that out of this crisis will come renewed commitments to our industry, commitments that will enforce our trade laws, commitments that will not destroy our industry in the name of some elusive foreign policy goals, and commitments that will improve our laws to make them at least as strong as our international agreements allow them to be.

Thank you, Chairman Becker.

COMMISSIONER BECKER: Thank you.

Mr. Simmons?